

Livingston Parish Sewer District Number Two

Annual Financial Statements

As of and for the Year Ended December 31, 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8/3/05

LEROY J. CHUSTZ
Certified Public Accountant
A Professional Accounting Corporation

Livingston Parish Sewer District Two
Annual Financial Statements
As of and For the Year Ended December 31, 2004
With Supplemental Information Schedules

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

**Board Members of
Livingston Parish Sewerage District Two
Denham Springs, Louisiana**

I have audited the accompanying basic financial statements of the **Livingston Parish Sewerage District Two**, a component unit of the Livingston Parish Council, as of and for the year ended December 31, 2004, as listed in the Table of Contents. These basic financial statements are the responsibility of **Livingston Parish Sewerage District Two's** management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the *Louisiana Governmental Audit Guide*. Those standards and the guide require that I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position and the results of operations and cashflows for the year then ended of the **Livingston Parish Sewerage District Two**, as of December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 29, 2005, on my consideration of the **Livingston Parish Sewerage District Two's** internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the **Livingston Parish Sewerage District Two's** basic financial statements. The accompanying supplementary information, such as the Management's Discussion and Analysis, as listed in the Table of Contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the **Livingston Parish Sewerage District Two**, but is required by the Governmental Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

Leroy J. Chustz
Certified Public Accountant
June 29, 2005

Required Supplemental Information (Part I)

Management's Discussion and Analysis

**Livingston Parish Sewer District Two
Denham Springs, Louisiana**

MANAGEMENT'S DISCUSSION AND ANALYSIS 12-31-2004

This section of the Livingston Parish Sewer District Two's annual financial report presents our discussion and analysis of the District's financial performance during this fiscal year. This document focuses on the current year's activities, resulting changes, and currently known facts. Please read this document in conjunction with the additional information stated on attached financial summaries

OVERVIEW OF FINANCIAL STATEMENTS:

The following narrative illustrates the minimum requirements as established by Governmental Accounting Standards Board Statement 34 as it pertains to the Livingston Parish Sewer District Two.

1. ****MANAGEMENT DISCUSSION and ANALYSIS****
 2. ****BASIC FINANCIAL STATEMENTS****
 3. ****REQUIRED SUPPLEMENTARY INFORMATION****
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BASIC FINANCIAL STATEMENTS:

This annual report consist of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the operations of Sewer District Two of Livingston Parish as a whole and present a longer-term view of the current District finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets and the Statement of Activities report the District's net assets and changes in them. The net difference between the assets and liabilities measures the health of the District's finances. Increases or decreases are noted as a measurement for your evaluation of the financial position of the District.

Livingston Parish Sewer District Two
Denham Springs, Louisiana

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FINANCIAL HIGHLIGHTS:

- 1- District had cash and investments of \$3,881,755 on 12-31-2004 representing an increase of \$2,064,789 from prior year end. The increase resulting from proceeds on hand from a bond sale made in August, 2004.
- 2- District had accounts receivable of \$59,684 on 12-31-2004 representing an decrease of \$5,480 from prior year end
- 3- District had prepaid insurance of \$21,411 on 12-31-2004 representing an increase of \$2,316 from prior year end
- 4- District had restricted assets of \$1,809,628 on 12-31-2004 representing an increase of \$1,594,881 from prior year end with the bulk of the increase relating to the restricted construction cash on hand of \$940,124 and fully funded reserve of \$502,637
- 5- District had land, plant facilities and equipment net of accumulated depreciation of \$7,955,913 on 12-31-2004 representing an increase of \$3,544,759 from prior year end. Depreciation expense totaled \$202,703 as per GASB Statement 34 Guidelines on Capital Assets and Depreciation. Construction in Progress totaled \$3,732,029 on 12-31-2004 included above cost net of accumulated depreciation.
- 7- District had capital purchases and asset improvements placed in service of \$362,150 during period ended 12-31-2004
- 8- District had sewer service sales and sewer maintenance fees of \$759,253 along with \$150,335 of non operating income and special grant income of \$423,450 on 12-31-2004
- 9-District had net income from all operations of \$539,563 on 12-31-2004 which is \$116,113 net of the special grant income of \$423,450

**Livingston Parish Sewer District Two
Denham Springs, Louisiana**

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Financial Analysis of the Entity:

STATEMENT OF NET ASSETS:

	2004	2003
Current and other assets	\$ 2,154,595	\$ 1,902,711
Cash assets restricted	1,809,628	214,747
Capital Assets (Net)	7,955,913	4,411,154
 Total Assets	 \$ 11,920,136	 \$ 6,528,613
	<u> </u>	<u> </u>
Current liabilities	\$ 13,714	\$ 22,278
Other liabilities	338,658	91,362
Long Term debt payable	5,756,390	1,003,921
 Total Liabilities	 \$ 6,108,762	 \$ 1,117,561
	<u> </u>	<u> </u>
Net Assets:		
Reserved Retained Earnings	214,757	214,757
Unreserved Earnings	5,596,617	5,196,295
 Total Net Assets	 5,811,374	 5,411,052
	<u> </u>	<u> </u>

Net assets of the District increased by \$400,322 from the previous year resulting from operating and non-operating revenues exceeding expenses for 12-31-2004.

General Revenue Information:

The District receives no ad-valorem taxes or sales taxes, but rather is a customer-user based system whereby customers of the District pay service fees on sewer usage by previously established sewer rates. New customers pay connection fees when being added for service along with a service deposit to cover a reasonable monthly sewerage bill which is reserved. The District has experienced growth in the past five year period with a forecast of continued accelerated growth in 2005. The customer base has grown from an approximate 1,050 customers in 1998 to a billable customer count of 2,409 by the close of 12-31-2004.

Livingston Parish Sewer District Two
Denham Springs, Louisiana
Statement of Activities

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	2004	2003
Sewer Service Sales-operations	\$ 759,253	\$ 751,095
Non operating revenues	150,335	94,365
Grant Income	423,450	0
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Subtotal Revenues	1,333,038	845,460
District Expenses direct	(292,493)	(287,152)
District Expenses general	(640,223)	(454,048)
Beginning Net Assets	5,411,052	5,306,792
Changes in net assets	\$ 400,322	\$ 104,260
Ending Net Assets	5,811,374	5,411,052
	=====	=====

District total revenues increased by \$8,158 and non operating revenues increased by \$55,970 respectively from the previous year along with a grant in 2004 of \$423,450. The total cost of operations increased by \$191,516 from the previous year due to the following:

- (A) increased maintenance of lift station pumps and repairs -additional\$ 6,131
- (B) an increase of general expenses relating to salaries and benefits was realized by increased staff positions totaling an additional \$68,107
- (C) increase in interest expense totaled an additional \$93,822 (construction int.)
- (D) increase of utilities, insurance, fuel, professional fees, and etc. totaled an additional \$23,456

Capital Assets:

District began investing in a major improvement project on site relating to a new Wastewater Treatment Plant which will be completed in mid 2005.

The Louisiana Tax Commission has approved a bond issuance to cover approximately 5.0 million dollars of additional capital improvements to be completed by mid 2005 on the infrastructure of this treatment facility.

The construction project had accumulated \$3,372,029 of construction in progress cost as of 12-31-2004 (proceeds coming from the bond sale in August, 2004).

Livingston Parish Sewer District Two
Denham Springs, Louisiana
Statement of Activities (Continued)

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Summary: The District is in the midst of completing a \$4,400,000 infrastructure improvement project with funding finalized in August, 2004. The District selected to use a portion of cash balances for the initial construction design of this wastewater treatment facility, and the appropriate line connections needed during 2004 and will finalize construction costs when the project is completed in 2005.

Capital Assets:

	2004	2003
1.LAND	\$ 138,134	\$ 138,134
<hr/>		
Systems, equipment, assets	6,869,135	6,506,985
(Accum. Depreciation expense)	(2,783,385)	(2,580,682)
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2.NET EQUIP- SYSTEMS	\$ 4,085,750	3,926,303
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3.CONSTRUCTION IN PROGRESS	\$ 3,732,029	346,717
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Total Capital Assets Net	\$7,955,913	\$ 4,411,154
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DEBT:

District has a total outstanding debt of \$5,953,921 as of 12-31-2004.

District completed a new debt issuance for 2004 with favorable low long term interest rates for approximately \$4,950,000.

**Livingston Parish Sewer District Two
Denham Springs, Louisiana**

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CONTACTING Livingston Parish Sewer District Two's Management:

The financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to show that the Livingston Parish Sewer District Two's accountability for the money received through its operations. If there are any questions about this report or need of additional financial information, contact Director of Operations, James Ray Clark , Post Office Box 1059 Denham Springs, La 70727.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the Governmental Accounting Standards Board. The sets of statements include:

1. Proprietary Fund Financial Statements:
 - Enterprise funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
STATEMENT OF NET ASSETS
As of December 31, 2004

Current Assets	
Cash and Cash Equivalents	\$ 344,855.76
Certificate of Deposit (with original maturities in excess of three months)	113,256.87
Prepaid Expense	21,411.24
Receivables	59,684.50
Total Current Assets	<u>539,208.37</u>
Restricted Assets	
Cash and Cash Equivalents	2,483,629.46
Certificates fo Deposit (with original maturities in excess of three months)	940,123.90
Total Restricted Assets	<u>3,423,753.36</u>
Property, Plant & Equipment	
Land	138,134.00
Construction in Progress	3,732,028.12
Fixed Assets being depreciated	6,564,330.40
Less: Accumulated Depreciation	(2,780,283.02)
Total Property, Plant, and Equipment (Net)	<u>7,654,209.50</u>
Intangible Assets	
Bond Issuance Costs	304,804.45
Less: Accumulated Ammortization	(3,102.00)
Total Intangible Assets (Net)	<u>301,702.45</u>
Other Assets	
Deposits	<u>1,263.40</u>
TOTAL ASSETS	<u>11,920,137.08</u>
Current Liabilities	
Accounts Payable	13,234.33
Salaries & Related benefits	480.04
Total Current Liabilities	<u>13,714.37</u>
Current Liabilities (Payable from Restricted Assets)	
Accrued interest payable	141,127.59
Bond payable - FMHA - current portion	23,531.00
Bond payable - 1997 A series - current portion	24,000.00
Bond payable - 2004 - current portion	150,000.00
Current Liabilities (Payable from Restricted Assets)	<u>338,658.59</u>
Long-Term Liabilities	
Bond Payable - FMHA	747,390.49
Bond Payable - 1997 A series	209,000.00
Bond Payable - 2004	4,800,000.00
Long-Term Liabilities	<u>5,756,390.49</u>
TOTAL LIABILITIES	<u>6,108,763.45</u>
Net Assets	
Reserved Net Assets for bond retirement & system improvements	3,420,505.10
Investment in Capital Assets - Net of Related Debt	1,697,625.94
Unrestricted Net Assets	693,242.18
NET ASSETS	<u>\$ 5,811,373.22</u>

The accompanying notes are an integral part of this statement.

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2004

OPERATING REVENUES:

Sewer Fees	\$ 758,319.25
Permits & Inspection fees	76,765.00
User Fees	25,629.00
Subdivision Requirement Fees	17,871.00
Total Operating Revenues	<u>878,584.25</u>

OPERATING EXPENSES:

Direct Expenses

Depreciation & Ammortization	202,703.00
System Maintenance	91,320.34
Total Direct Expenses	<u>294,023.34</u>

General and Administrative Expenses

Salaries	241,184.33
Payroll Taxes & Group Insurance	47,098.26
Per Diem	2,880.00
Insurance	49,789.88
Professional Fees	33,649.24
License & Permits	2,298.04
Fuel and Supplies	24,994.57
Equipment Repairs	4,408.50
Office Expense	82,314.07
Total General and Administrative Expenses	<u>488,616.89</u>

Total Operating Expense	<u>782,640.23</u>
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NET OPERATING INCOME (LOSS)	<u>95,944.02</u>
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NON-OPERATING REVENUES & EXPENSES

Grant Revenue	423,450.00
Interest Income	30,070.81
Less: Interest Expense	<u>(149,143.19)</u>
Total Non-Operating Revenue (Expense)	<u>304,377.62</u>

NET INCOME (LOSS)	<u>400,321.64</u>
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NET ASSETS AT BEGINNING OF YEAR	<u>5,411,051.58</u>
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NET ASSETS AT END OF YEAR	<u>\$ 5,811,373.22</u>
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The accompanying notes are an integral part of this statement.

LIVINGSTON PARISH SEWER DISTRICT TWO
STATEMENT OF CASHFLOWS
For the Year Ended December 31, 2004

Cash Flows From Operating Activities

Received From Customers	\$ 881,623.42
Payments for Operations	(299,534.56)
Payments to Employees	(291,282.60)
	<u>290,806.26</u>

Cash Flows From Capital and Related Financing Activities

Paid for Capital Acquisitions	(3,439,993.96)
Principal Repayments, Revenue Bonds Payable	(44,410.44)
Interest Payments - Revenue Bonds Payable	(149,143.19)
Proceeds from Bonds Issued	4,950,000.87
Proceeds from Grants Received	423,450.00
	<u>1,739,903.28</u>

Cash Flows From Investing Activities

Receipt of Interest	124,246.77
Purchase of Investments	(77,187.63)
Bond Issuance Costs	(304,804.65)
	<u>(257,745.51)</u>

Net Increase (Decrease) in Cash	1,772,964.03
Cash at Beginning of Year	<u>1,055,521.19</u>
Cash at End of Year	<u>\$ 2,828,485.22</u>

Reconciliation of Cash & Cash Equivalents to the Statement of Net Assets

Cash & Cash Equivalents	\$ 344,855.76
Restricted Cash & Cash Equivalents	<u>2,483,629.46</u>
Total Cash & Cash Equivalents	<u>\$ 2,828,485.22</u>

Reconciliation of Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

Operating Income (Loss)	\$ 95,944.02
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation Expense	202,703.00
Change in Accounts Receivable	3,039.17
Change in Prepaid Expenses	(2,315.84)
Change in Accounts Payable	(8,444.08)
Change in Accrued Expenses	(120.01)
Net Cash Provided (Used) by Operating Activities	<u>\$ 290,806.26</u>

The accompanying notes are an integral part of this statement

Basic Financial Statements

Notes to the Financial Statements

LIVINGSTON PARISH SEWERAGE DISTRICT NUMBER TWO
Denham Springs, Louisiana
Notes to the Financial Statements
As of and For the Year Ended December 31, 2004

INTRODUCTION

Livingston Parish Sewerage District Number Two, Denham Springs, Louisiana, was created by the Livingston Parish Police Jury (now the Livingston Parish Council) on October 26, 1974, pursuant to the provisions of R.S. 33:3811, et. seq., of the Louisiana Revised Statutes of 1950.

The District is located in Denham Springs, Louisiana. The purpose of the District is to provide sanitation services to customers within the boundaries of the District. The District is composed of three board members who are appointed by the Parish Council of Livingston. Board members are compensated for meeting attendance at the rate of \$60.00 per meeting.

GASB Statement No. 14, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, Sewerage District Two is considered a component unit of Livingston Parish Government. As a component unit, the accompanying financial statements should be included within the reporting of the primary government, either blended into those financial statements or separately reported as discrete component units.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Government-Wide and Fund Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of Livingston Parish Sewerage District Two. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meetings the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. All individual governmental funds and individual enterprise funds are reported as separate columns in the fund financial statements. The Livingston Parish Sewerage District Two has no governmental funds and only one proprietary fund.

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2004

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Livingston Parish Sewerage District Two reports the following proprietary funds:

Operating Fund - Accounts for financial resources of the District.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The District's primary sources of revenues are user charges and fees charged for connecting to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the entity's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Deposits and Investments

The entity's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State law and the District's investment policy allow the entity to invest in collateralized certificates of deposits, government-backed securities, commercial paper, the state-sponsored investment pool, and mutual funds consisting solely of government-backed securities.

D. Receivables and Payables

All trade and property tax receivables are shown net of an allowance for uncollectible. The District periodically evaluates the collectability of delinquent accounts.

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2004

E. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements. As of year end, December 31, 2004, the District had no significant inventory.

F. Restricted Assets

The District is required to maintain the following reserves as a condition of the loans made to the Sewer District and/or bond covenants.

FARMERS HOME ASSOCIATION LOAN

A. Reserve Bond Sinking Fund

Each month the district must transfer into the revenue bond sinking fund, a sum equal to one-twelfth of the interest falling due on the next interest payment date and, in addition, a sum equal to one-twelfth of the principal falling due on the next principal payment date, together with such additional proportionate sums as may be required as the same respectively become due. Said fiscal agent bank shall make available from the revenue bond sinking fund to the paying agent for all installments on the bond payable from said fund, at least ten days in advance of the date on which each payment of principal or interest falls due, funds fully sufficient to pay promptly the principal and interest so falling due on such date.

B. Sewerage System Revenue Bond Reserve Fund

Each month the district must transfer into the reserve fund, a sum equal to five per cent of the sum required to be transferred in each month into the revenue bond sinking fund as required in the reserve bond sinking fund, the payments to continue until such time as there has been accumulated therein a sum equal to the highest combined principal and interest requirement in any succeeding fiscal year on the outstanding principal of the bonds. The money in the reserve fund is to be retained solely for the purpose of paying the principal of and the interest on bonds payable from the revenue bond sinking fund as to which there would otherwise be default.

C. Depreciation and Contingency Fund

Each month the district must transfer into the depreciation and contingency fund the sum of \$168.00. All monies in the depreciation and contingency fund may be drawn on and used by the district for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, replacements and extensions, and the costs of improvements to the sewerage system, which will either enhance its revenue producing capacity or provide a higher degree of service.

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2004

1997-A SERIES BONDS

- A. A Sewerage System Revenue Bond and Interest Sinking Fund (the "Revenue Bond Sinking Fund")**, sufficient in amount to pay promptly and fully the principle of and interest on the bond and unrefunded bond, including any additional pari passu bonds issued hereafter in the manner provided in this resolution, as they severally became due and payable by depositing with the regularly designated fiscal agent bank of the District (which must be a member of the Federal Deposit Insurance Corporation) by transferring from said Revenue Fund to the Sinking Fund before the 20th day of each month of each year beginning on the first day of the month following delivery of the bond, a sum equal to one-twelfth (1/12) of the interest falling due on the next interest payment date and, in addition, a sum equal to one-twelfth (1/12) of the principal falling due on the next principal payment date, together with such additional proportionate sums as may be required as the same respectively become due. Money in the Revenue Bond Sinking Fund shall be deposited as trust funds and shall be used solely and is hereby expressly and exclusively pledged for the purpose of paying principal of and interest on the bond and parity bonds.

Following the required payments to the Revenue Bond Sinking Fund, the monies remaining in the Revenue Fund shall be distributed in accordance with the following paragraphs:

- B. A "Sewerage System Revenue Bond Reserve Fund"**, by transferring to the regularly designated fiscal agent bank (which must be a member of the Federal Deposit Insurance Corporation) monthly in advance on or before the 20th day of each month of each year, a sum equal to five percent (5%) of the sum required in (b) above, the payments to continue until such time as there has been accumulated therein a sum equal to the highest combined principal and interest requirement in any succeeding fiscal year on the outstanding principal of the bond, the unrefunded bond, and any additional parity bonds. The money in the Reserve Fund is to be retained solely for the purpose of paying the principal of and the interest on bonds payable from the Revenue Bond Sinking Fund as to which there would otherwise be default. In the event that additional pari passu bonds are issued hereafter in the manner provided by this resolution, there shall be transferred from the Sewerage System Revenue Fund into the Revenue Bond Sinking Fund, monthly or annually, such amounts (as may be designated in the resolution authorizing the issuance of such pari passu bonds) as will increase the total amount on deposit in the Reserve Fund within a period not exceeding five (5) years from the date of delivery of the parity bonds to a sum equal to the highest combined principal and interest requirements in any succeeding fiscal year on all outstanding bonds issued pursuant to the terms of this resolution, including such pari passu bonds.
- C. A "Depreciation and Contingency Fund"**, by transferring from the Sewerage System Revenue Fund on or before the 20th day of each month to the regularly designated fiscal agent bank of the District (which must be a member of the Federal Deposit Insurance Corporation) the sum equal to five percent (5%) of the sums required to be transferred in each month into the Revenue Bond Sinking Fund, as required in (b) above, but not less than \$168.00 per month. All monies in the Depreciation and Contingency Fund may be drawn on and used by the district for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, replacements and extensions, and the costs of improvements to the Sewerage System, which will either enhance its revenue-

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2004

producing capacity or provide a higher degree of service. In the event the available balances in the Revenue Bond Sinking Fund and Sewerage System Revenue Bond Reserve Fund are insufficient, monies on deposit in the Depreciation and Contingency Fund shall be transferred in such amounts as are necessary to eliminate the deficiencies, respectively, in the Revenue Bond Sinking Fund and the Reserve Fund.

Restricted assets have been set aside in the current period as required by the applicable bond resolution in order to service the bonds payable.

2004 Revenue Bonds - Series 2004

Sinking Fund -

A Sewerage System Revenue Bond and Interest Sinking Fund (the "Revenue Bond Sinking Fund"), sufficient in amount to pay promptly and fully the principle of and interest on the bond and unrefunded bond, including any additional pari passu bonds issued hereafter in the manner provided in this resolution, as they severally became due and payable by depositing with the regularly designated fiscal agent bank of the District (which must be a member of the Federal Deposit Insurance Corporation) by transferring from said Revenue Fund to the Sinking Fund before the 20th day of each month of each year beginning on the first day of the month following delivery of the bond, a sum equal to one-twelfth (1/12) of the interest falling due on the next interest payment date and, in addition, a sum equal to one-twelfth (1/12) of the principal falling due on the next principal payment date, together with such additional proportionate sums as may be required as the same respectively become due. Money in the Revenue Bond Sinking Fund shall be deposited as trust funds and shall be used solely and is hereby expressly and exclusively pledged for the purpose of paying principal of and interest on the bond and parity bonds.

Reserve Fund -

A "Sewerage System Revenue Bond Reserve Fund", by transferring to the regularly designated fiscal agent bank (which must be a member of the Federal Deposit Insurance Corporation) monthly in advance on or before the 20th day of each month of each year, a sum equal to five percent (5%) of the sum required in (b) above, the payments to continue until such time as there has been accumulated therein a sum equal to the highest combined principal and interest requirement in any succeeding fiscal year on the outstanding principal of the bond, the unrefunded bond, and any additional parity bonds. The money in the Reserve Fund is to be retained solely for the purpose of paying the principal of and the interest on bonds payable from the Revenue Bond Sinking Fund as to which there would otherwise be default. In the event that additional pari passu bonds are issued hereafter in the manner provided by this resolution, there shall be transferred from the Sewerage System Revenue Fund into the Revenue Bond Sinking Fund, monthly or annually, such amounts (as may be designated in the resolution authorizing the issuance of such pari passu bonds) as will increase the total amount on deposit in the Reserve Fund within a period not exceeding five (5) years from the date of delivery of the parity bonds to a sum equal to the highest combined principal and interest requirements in any succeeding fiscal year on all outstanding bonds issued pursuant to the terms of this resolution, including such pari passu bonds.

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2004

Depreciation and Contingency Fund -

A "Depreciation and Contingency Fund", by transferring from the Sewerage System Revenue Fund on or before the 20th day of each month to the regularly designated fiscal agent bank of the District (which must be a member of the Federal Deposit Insurance Corporation) the sum equal to five percent (5%) of the sums required to be transferred in each month into the Revenue Bond Sinking Fund, as required in (b) above. All monies in the Depreciation and Contingency Fund may be drawn on and used by the district for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, replacements and extensions, and the costs of improvements to the Sewerage System, which will either enhance its revenue-producing capacity or provide a higher degree of service. In the event the available balances in the Revenue Bond Sinking Fund and Sewerage System Revenue Bond Reserve Fund are insufficient, monies on deposit in the Depreciation and Contingency Fund shall be transferred in such amounts as are necessary to eliminate the deficiencies, respectively, in the Revenue Bond Sinking Fund and the Reserve Fund.

G. Capital Assets

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

<i>Description</i>	<i>Estimated Lives</i>
Infrastructure assets	40
Land improvements	40
Buildings and building improvement	40
Furniture and fixtures	5-10
Vehicles	5
Equipment	3-10

H. Compensated Absences

Employees of the District earn leave based on the number of hours worked each pay period. At this time the District has no provisions for leave carryover; therefore, a leave accrued was not recorded in the financial statements.

I. Long-Term Obligations

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2004

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

J. Fund Equity

In the government wide financial statements, equity is reported as net assets and is segregated into three components. Those components are: amounts invested in capital assets (net of related debt), amounts restricted, and unrestricted net assets.

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events within the control of the District, which are either unusual in nature or infrequent in occurrence.

L. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budget Information

Livingston Parish Sewerage District Two uses the following budget practices:

- The District's administrative secretary prepares a proposed budget and submits same to the Board of Directors no later than fifteen days prior to the beginning of each fiscal year.
- A summary of the proposed budget is published and the public notified that the proposed budget is available for public inspection. At the same time, a public hearing is called.
- A public hearing is held on the proposed budget at least ten days after publication of the call for the hearing.
- After the holding of the public hearing and completion of all action necessary to finalize and implement the budget, the budget is adopted through passage of a resolution prior to the commencement of the fiscal year for which the budget is being adopted.

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2004

- All budgetary appropriations lapse at the end of each fiscal year.
- Budgets for the funds are presented on the modified accrual basis of accounting. All budgetary amounts presented reflect the original amended budget (which have been adjusted for legally authorized revisions of the annual budget during the year).

3. CASH AND CASH EQUIVALENTS

At December 31, 2004, the District had cash and cash equivalents (book balances) as follows:

December 31, 2004

Demand Deposits	\$ 1,552,469.46
Money Market Funds	<u>1,276,015.76</u>
Total	<u><u>\$ 2,828,485.22</u></u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance of the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. Deposits (bank balances) secured at December 31, 2004, are as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the Board or by its agent in its name

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Board's name

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Board's name; or collateralized with no written or approved collateral agreement

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Not Required To Be Collateralized	Total Carrying Value
		1	2	3		
Cash and Cash Equivalents (unrestricted)	\$ 344,427.07	\$ 100,000.00		\$ 244,427.07		\$ 344,855.76
Certificates of Deposit (With original maturities in excess of three months)	113,256.87	100,000.00		13,256.87		113,256.87
Restricted Assets	3,423,828.36	100,000.00		2,048,166.29	1,275,305.29	3,423,751.36
Total Deposits	<u><u>\$ 3,881,512.30</u></u>	<u><u>\$ 300,000.00</u></u>		<u><u>\$ 2,305,850.23</u></u>	<u><u>\$ 1,275,305.29</u></u>	<u><u>\$ 3,881,863.99</u></u>

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2004

Deposits are collateralized with securities held by the pledging financial institution's trust department or agent, in the District's name.

4. RESTRICTED ASSETS

The following reserve accounts are required as a condition of District's bonds or loans:

Sinking Fund

	<u>FMHA</u>	<u>1997 Series A</u>	<u>2004 Series A</u>	<u>Total</u>
Required Balance	\$ 51,731	\$ 31,650	\$ 142,308	\$ 225,689
Balance at December 31, 2004				<u>294,606</u>
Over (Under) Funded Amount				<u>\$ 68,917</u>

Reserve Fund

	<u>FMHA</u>	<u>1997 Series A</u>	<u>2004 Series A</u>	<u>Total</u>
Required Balance	\$ 21,727	\$ 11,077	\$ 7,115	\$ 39,919
Balance at December 31, 2004				<u>502,637</u>
Over (Under) Funded Amount				<u>\$ 462,718</u>

Depreciation & Contingency

	<u>FMHA</u>	<u>1997 Series A</u>	<u>2004 Series A</u>	<u>Total</u>
Required Balance	\$ 14,112	\$ 13,776	\$ 7,115	\$ 35,003
Balance at December 31, 2004				<u>72,261</u>
Over (Under) Funded Amount				<u>\$ 37,258</u>

The remaining balance of \$2,551,001.10 in restricted assets is legally required to be restricted to expenditures related to sewer repairs and improvements. The Sinking Fund, the Reserve Fund and the Depreciation & Contingency fund for all three bond issues have been combined to three funds. There is only one sinking fund to which the District moves funds to monthly and from which bond principal and interest is paid for all three funds. The same type of arrangement exists for the District's Reserve and Depreciation & Contingency fund, the District doesn't not maintain separate Sinking funds, Reserve funds or Depreciation & Contingency funds for each bond issue.

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2004

5. ACCOUNTS RECEIVABLE

Customer accounts receivable are as follows:

	<u>December 31, 2004</u>
Receivable from Sewer Two Consumers	\$ 62,346.16
Total Receivable at December 31, 2004	<u>\$ 62,346.16</u>

6. CHANGES IN GENERAL FIXED ASSETS

The following is a summary of changes in capital assets:

	Balance at January 1, 2004	Additions	Deletions	Balance at December 31, 2004
Fixed assets not being depreciated:				
Land	\$ 138,134.00		-	\$ 138,134.00
Construction in Progress	346,717.07	\$3,385,311.05	-	3,732,028.12
Total	<u>\$ 484,851.07</u>	<u>\$3,385,311.05</u>	<u>-</u>	<u>\$ 3,870,162.12</u>
Fixed assets being depreciated:				
Plant	\$ 5,882,122.40	\$ 7,500.00	-	\$ 5,889,622.40
Machine and Equipment	530,556.00	37,796.00	-	568,352.00
Vehicles	94,307.00	12,049.00	-	106,356.00
Total	<u>\$ 6,506,985.40</u>	<u>\$ 57,345.00</u>	<u>-</u>	<u>\$ 6,564,330.40</u>
Accumulated Depreciation:				
	Balance at January 1, 2004	Additions	Deletions	Balance at December 31, 2004
Plant	\$ (2,252,524.02)	\$(147,636.00)	-	\$ (2,400,160.02)
Machine & Equipment	(271,279.00)	(33,624.00)	-	(304,903.00)
Vehicle	(56,879.00)	(18,341.00)	-	(75,220.00)
Total Accumulated Depreciation	<u>\$ (2,580,682.02)</u>	<u>\$(199,601.00)</u>	<u>-</u>	<u>(2,780,283.02)</u>
Capital Assets (Net) at December 31, 2004				<u>\$ 7,654,209.50</u>

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2004

7. LONG-TERM DEBT

The following is a summary of loan transactions of the Sewer District for the year ending December 31, 2004 :

	FMHA BOND	1997 REFUNDING BONDS	2004 REVENUE BOND	TOTAL
Bonds payable at January 1, 2004	\$ 793,331.93	\$ 255,000.00	-	\$ 1,048,331.93
Bonds Issued	-	-	\$ 4,950,000.00	4,950,000.00
Bonds Retired	<u>(22,410.44)</u>	<u>(22,000.00)</u>	<u>-</u>	<u>(44,410.44)</u>
Bonds payable at December 31, 2004	<u>\$ 770,921.49</u>	<u>\$ 233,000.00</u>	<u>\$ 4,950,000.00</u>	<u>\$ 5,953,921.49</u>

Repayment is to be made as follows:

	FMHA BONDS		1997 REFUNDING BONDS		2004 REVENUE BOND		TOTAL
YEAR ENDED	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL
2005	\$ 23,531.96	\$ 38,546.04	\$ 24,000.00	\$ 13,980.00	\$ 150,000.00	\$ 250,024.67	\$ 197,531.96
2006	24,707.51	37,369.49	25,000.00	12,540.00	50,000.00	231,165.56	99,707.51
2007	25,942.55	36,134.12	26,000.00	11,040.00	50,000.00	230,862.88	101,942.55
2008	27,240.03	34,836.97	28,000.00	9,480.00	50,000.00	229,411.88	105,240.03
2009	28,602.03	33,474.97	30,000.00	7,800.00	55,000.00	227,730.96	113,602.03
2010-2014	165,946.47	144,438.53	100,000.00	12,180.00	300,000.00	1,107,236.46	565,946.47
2015-2019	211,794.42	98,590.58			365,000.00	1,038,877.46	576,794.42
2020-2024	263,156.52	40,075.69			455,000.00	952,684.75	718,156.52
2025-2029					575,000.00	824,548.50	575,000.00
2030-2034					735,000.00	658,476.25	735,000.00
2035-2039					950,000.00	444,570.00	950,000.00
2040-2044					1,215,000.00	16,100.00	1,215,000.00
TOTAL	<u>\$ 770,921.49</u>	<u>\$ 463,466.39</u>	<u>\$ 233,000.00</u>	<u>\$ 67,020.00</u>	<u>\$4,950,000.00</u>	<u>\$6,211,689.37</u>	<u>\$5,953,921.49</u>

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2004

8. RISK MANAGEMENT

The District is exposed to various risks of loss related to theft, damage, or destruction of assets, torts, injuries, natural disasters, and many other unforeseeable events. The District purchases commercial insurance policies and bonds for any and all claims related to the aforementioned risks. The District's payment of the insurance policy deductible is the only liability associated with these policies and bonds. There has been no significant decreases in insurance coverage from the prior year, and the amount of settlements has not exceeded the insurance coverage for the past three fiscal years.

9. PER DIEM PAID TO BOARD MEMBERS

Board members are appointed by the Livingston Parish Council and serve at the pleasure of the Council. There are no set terms of office. Board members are paid \$60 per diem for each meeting they attend.

Thomas Walton 1051 Maywood Dr. Denham Springs, LA 70726	\$ 900.00
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J. K. Parker 36426 Lucas Drive Denham Springs, LA 70726	960.00
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Kenneth Bingham 8850 Old Winchester Rd. Denham Springs, LA 70726	1,020.00
	<u>\$ 2,880.00</u>

10. INCOME TAXES

Livingston Parish Sewerage District Two is exempt from all federal and state income taxes.

11. LITIGATION

LIVINGSTON PARISH SEWERAGE DISTRICT TWO
Denham Springs, Louisiana
Notes to the Financial Statements
For the Year Ended December 31, 2004

According to the Sewerage District's attorney, there is no pending litigation against the Livingston Parish Sewerage District Two.

12. RETIREMENT PLAN

The Sewer District does not belong to a retirement program. However, the District contributes to self-employed retirement plan (SEP). The District contributes \$5,877.25 to SEP in 2004. Employees are fully vested at the time of contributions.

OTHER REPORTS REQUIRED BY

GOVERNMENT AUDITING STANDARDS

The following pages contain a report on compliance with laws and regulations and on internal control over financial reporting as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material misstatements in internal control or compliance matters that would be material to the presented financial statements.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**Board Members of
Livingston Parish Sewerage District Two
Denham Springs, Louisiana**

I have audited the basic financial statements of **Livingston Parish Sewerage District Two**, Denham Springs, Louisiana, a component unit of the Livingston Parish Council, as of and for the year ended December 31, 2004, and have issued my report thereon dated June 29, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether **Livingston Parish Sewerage District Two's** financial statements are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as Audit Finding 2004-1.

Internal Control Over Financial Reporting

In planning and performing my audits, I considered **Livingston Parish Sewerage District Two's** internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of **Livingston Parish Sewerage District Two's** management, pass-through entities, and the Legislative Auditor, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Leroy J. Chustz
Certified Public Accountant, APAC

June 29, 2005

Livingston Parish Sewerage District Two

Schedule of Findings Year Ended December 31, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of Livingston Parish Sewerage District Two.
2. No reportable conditions were disclosed during the audit of the basic financial statements.
3. One instance of noncompliance were disclosed during the audit of the basic financial statements.
4. There were no findings associated with the federal awards received by Livingston Parish Sewerage District Two.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

Compliance and Internal Control

2004-1

Criteria -

State law requires an entity to have it's audit completed within six months of the end of the fiscal year.

Condition -

The District's auditors' hard drive crashed.

Effect -

The District's data was lost causing the audit to be submitted late.

Management Corrective Action Plan -

Auditor is taking steps to ensure this doesn't happen again.

Livingston Parish Sewerage District Two

**Schedule of Prior Year Findings
For The Year Ended December 31, 2004**

B. SUMMARY OF PRIOR YEAR AUDIT RESULTS

There were no prior year audit findings.